



U.S. Department of the Interior
Office of Inspector General

AUDIT REPORT

INDEPENDENT AUDITORS REPORT ON
THE FINANCIAL STATEMENTS FOR
FISCAL YEARS 1998 AND 1997
FOR THE OFFICE OF THE SPECIAL TRUSTEE
FOR AMERICAN INDIANS
TRIBAL AND OTHER SPECIAL TRUST FUNDS
AND INDIVIDUAL INDIAN MONIES
TRUST FUNDS MANAGED BY THE
OFFICE OF TRUST FUNDS MANAGEMENT

REPORT NO. 00-I-434
MAY 2000

OPTIONAL FORM 98 (7-00)

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of pages *15*

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United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20240

MAY 22 2000

Memorandum

To: Special Trustee for American Indians,
Office of the Special Trustee for American Indians

Subject: Independent Auditors Report on the Financial Statements for Fiscal
Years 1998 and 1997 for the Office of the Special Trustee for
American Indians Tribal and Other Special Trust Funds and Individual
Indian Monies Trust Funds Managed by the Office of Trust Funds
Management (No. 00-I-434)

The Office of Trust Funds Management contracted with the independent public accounting firm of Griffin and Associates, P.C., to audit the statements of assets and Trust Funds balances and the statements of changes in Trust Funds balances for Tribal and Other Special Trust Funds and for Individual Indian Monies Trust Funds as of and for the fiscal years ended September 30, 1998, and 1997. The Trust Funds, which are managed by the Office of Trust Funds Management, under the Office of the Special Trustee for American Indians, consist of tribal and individual Indian monies and other special appropriated funds.

For the fiscal year 1998 annual financial report, Department of the Interior and Office of Trust Funds Management officials issued two sets of financial statements with accompanying notes: one set for the Tribal and Other Special Trust Funds and the other set for the Individual Indian Monies Trust Funds. The financial statements and notes to the financial statements of the Tribal and Other Special Trust Funds were reported using the cash basis of accounting, and the Individual Indian Monies Trust Funds were reported using a modified cash basis of accounting. Comparative data for fiscal year 1997 have also been presented.

In its reports on the financial statements, the independent public accountant issued qualified opinions because cash balances were materially greater than those reported by the U.S. Treasury, major deficiencies in the accounting systems' controls and records caused the systems to be unreliable, and certain Trust Funds beneficiaries disagreed with balances recorded by the Office of Trust Funds Management and had filed or were expected to file claims against the Office of Trust Funds Management. These conditions prevented the cash and Trust Funds balances and the receipts and disbursements from being audited. In addition, a potential liability to the Federal Government existed because of the lawsuits filed over the Government's fiduciary responsibilities.

The independent public accountant's report on the internal control structure contained one recommendation to address weaknesses in the Office of Trust Funds Management's trust accounting systems. These weaknesses had been reported in the opinion on the financial statements for fiscal year 1995 as two internal control weaknesses. This year's report also restated 8 material weaknesses, 11 reportable weaknesses, and 5 advisory comments from prior years' audit reports for which the recommendations remained unimplemented, although the Office of Trust Funds Management concurred with the recommendations.

The recommendation contained in this year's report was based on the following internal control weakness that the independent public accountant classified as another advisory comment that was addressed to the Bureau of Indian Affairs as follows:

- System security:
 - Periodic reviews of system reports were not performed.
 - Specific clearly defined information security policies and procedures for system security monitoring did not exist.
- Physical access to the Operations Service Center at the Bureau of Indian Affairs:
 - Not all access cards were assigned to specific individuals.
 - Certain individuals were in possession of multiple cards.
 - Certain contractors with limited need were in possession of access cards.
 - Certain personnel whose jobs should not have required access to the computer room were in possession of access cards.
 - Two Bureau of Indian Affairs employees, not employees of the Operations Service Center, were in possession of access cards.
- Documentation: Access request forms were not stored in a secure location.
- Password controls:
 - User codes were not routinely removed for terminated or transferred employees.
 - Passwords were not changed on a regular basis.
 - Complete documentation did not exist to readily identify the owner of each user code.
- Disaster Recovery Plan: The plan had not been tested in almost 2 years.

The independent public accountant's report on compliance with laws and regulations contained one material noncompliance issue, an immaterial noncompliance issue, and another noncompliance issue. The material noncompliance issue and the immaterial noncompliance issue had been reported in prior audit reports. The material issue was that tribal organizations and classes of individual Indians had filed various claims against the Federal Government for its failure to fulfill its fiduciary responsibilities and had made other related charges. The immaterial noncompliance issue (No. C.1) related to the Office of Trust Funds Management accepting voluntary deposits, which is generally prohibited by the Code of Federal Regulations (25 CFR 115.8). The report on internal controls noted several instances where the Office of Trust Funds Management accepted voluntary deposits to

Individual Indian Money accounts. The other noncompliance issue related to the Office of Trust Funds Management's disclosure in its management representation letter that, since September 30, 1995, it had not complied with the Federal Managers Financial Integrity Act of 1982. Specifically, the Office of Trust Funds Management failed to assess (1) the effectiveness of its internal control structure over safeguarding the assets against unauthorized acquisition, use, or disposition; (2) compliance with laws and regulations; and (3) financial reporting based on control criteria established under the Act. The report contained no recommendations for these issues. One other noncompliance issue and one immaterial noncompliance issue from a prior audit report were also included in this year's report because implementation of these recommendations had not been accomplished.

In addition to the results of the audit of the financial statements as of and for the fiscal years ended September 30, 1998, and 1997, the independent public accountant's report contained a summary of internal control issues reported since fiscal year 1995. Of the 42 issues reported, 27 recommendations remained unimplemented as of September 30, 1998. The status of recommendations contained in our prior report (No. 98-I-206) is in Appendix 2 of this report.

Based on the response from the Office of Trust Funds Management (which was incorporated into the independent public accountant's report) and the March 17, 2000, response from the Bureau of Indian Affairs (see Appendix 1) to Recommendation 42 in the report on internal controls, we consider the recommendation resolved but not implemented. Accordingly, the recommendation will be referred to the Assistant Secretary for Policy Management and Budget for tracking of implementation. Recommendation 42 was addressed to the Bureau of Indian Affairs, which indicated in its response that it had identified the weakness in its Federal Managers Financial Integrity Act report for fiscal year 1999 and that some of the recommendations had been implemented. However, the Bureau of Indian Affairs did not provide target dates for implementation of the recommendations. In addition, the Bureau responded to several other recommendations that had been previously reported and referred for resolution and tracking of implementation.

In conjunction with the audit, we reviewed the independent public accountant's report and related working papers. Our review, as differentiated from an audit performed in accordance with generally accepted Government auditing standards, was not intended to enable us to express, and we do not express, opinions on the financial statements of the Office of the Special Trustee for American Indians, on management's assertions about the effectiveness of its internal controls, or on its compliance with applicable laws and regulations. The independent public accountant is responsible for the auditor's report dated January 22, 1999, and the conclusions expressed in the report. However, our review disclosed no instances in which the independent public accountant did not comply in all material respects with generally accepted auditing standards.

Since the report's recommendation is considered resolved, no further response to the Office of Inspector General is required (see Appendix 3).

Section 5(a) of the Inspector General Act (5 U.S.C. app. 3) requires the Office of Inspector General to list this report in its semiannual report to the Congress. In addition, the Office of Inspector General provides audit reports to the Congress.

This report is intended for the information of management of the Office of the Special Trustee for American Indians, the Bureau of Indian Affairs, the Office of Management and Budget, and the Congress. However, this report is a matter of public record, and its distribution is not limited.



Roger La Rouche
Acting Assistant Inspector General
for Audits

cc: Assistant Secretary for Indian Affairs

U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS
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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON FINANCIAL STATEMENTS

SEPTEMBER 30, 1998 AND 1997

GRIFFIN & ASSOCIATES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

DAN D. GRIFFIN

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON FINANCIAL STATEMENTS

To the U.S. Department of the Interior
Office of the Special Trustee for American Indians:

We have audited the accompanying Combined Statements of Assets and Trust Fund Balances and the related Combined Statements of Changes in Trust Fund Balances for the Tribal and Other Special Trust Funds managed by the U.S. Department of the Interior Office of the Special Trustee for American Indians (the "OST") Office of Trust Funds Management (the "OTFM") as of and for the years ended September 30, 1998 and 1997. These financial statements are the responsibility of management of the OTFM. Our responsibility is to express an opinion on these financial statements based on our audits. As discussed in Note 1, the OTFM used the cash basis of accounting to prepare these financial statements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

Except as discussed in the following paragraph, we conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used, and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed further in the Notes to the Financial Statements, (1) cash balances reflected in the accompanying combined financial statements are materially greater than balances reported by the U.S. Treasury, (2) inadequacies in various Department of the Interior ("DOI") Indian Trust Fund accounting systems and subsystems, controls and records caused the systems to be unreliable, (3) various Tribal organizations and classes of Individual Indians for whom the OTFM holds assets in trust do not agree with certain OTFM accountings and balances recorded by the OTFM, and certain of these parties have filed, or are expected to file, claims against the OTFM. This may result in a potential liability to the U.S. Federal Government that is not reasonably estimable. Because of these matters, it was not practicable to extend our auditing procedures to enable us to express an opinion regarding the basis on which cash and Trust Fund balances in the Combined Statements of Assets and Trust Fund Balances and individual categories within the Combined Statements of Changes in Trust Fund Balances are stated.

In our opinion, except for the effect on the financial statements of adjustments that might have been determined had we been able to perform adequate audit procedures to verify the financial elements described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position and change in Trust Fund balances of the Tribal and Other Special Trust Funds managed by the U.S. Department of the Interior Office of the Special Trustee for American Indians Office of Trust Funds Management as of September 30, 1998 and 1997, and for the years then ended in conformity with the comprehensive basis of accounting described in paragraph one above.

We have also issued separate reports dated January 22, 1999, on the OTM's internal control structure and on its compliance with laws and regulations.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Market Value columns, Supplementary Combining Schedule of Assets and Trust Fund Balances, and the related Supplementary Combining Schedule of Changes in Trust Fund Balances as reflected on pages 27 and 28 are presented for purposes of additional analysis and are not a required part of the basic combined financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic combined financial statements, and in our opinion, except for the items set forth above, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information in the Overview Section is not a required part of the basic financial statements, but is supplementary information. We did not audit this information, and because of the exceptions set forth above, we do not express an opinion on such information.

Griffin & Associates, P.C., CPAs

GRIFFIN & ASSOCIATES, P.C.
Certified Public Accountants

Boulder, Colorado
January 22, 1999

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OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS
TRIBAL AND OTHER SPECIAL TRUST FUNDS
MANAGED BY THE
OFFICE OF TRUST FUNDS MANAGEMENT

FINANCIAL STATEMENTS

SEPTEMBER 30, 1998 AND 1997

U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS
TRIBAL AND OTHER SPECIAL TRUST FUNDS
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COMBINED STATEMENTS OF ASSETS AND TRUST FUND BALANCES - CASH BASIS
SEPTEMBER 30,

ASSETS	1998		1997	
	Cash Basis	Market Values - Information Only	Cash Basis	Market Values - Information Only
Cash (Note 4)	\$ 16,132,320	\$ 16,132,320	\$ 735,011	\$ 735,011
Investments (Notes 1C, 4 and 5):				
Overnight investments	273,413,846	273,413,846	289,848,448	289,848,448
U.S. Treasury and Agency securities	2,066,635,568	2,274,892,618	1,995,077,796	2,143,912,994
Certificates of deposit	607,865	607,865	5,398,670	5,398,670
Equity securities - TVA preferred stock	4,898,750	5,131,035	7,548,750	7,814,213
Mortgage backed securities	98,360,181	103,687,933	105,112,677	105,891,225
Total investments	<u>2,443,916,210</u>	<u>2,657,733,297</u>	<u>2,402,986,341</u>	<u>2,552,865,550</u>
Total assets	<u>\$ 2,460,048,530</u>	<u>\$ 2,673,865,617</u>	<u>\$ 2,403,721,352</u>	<u>\$ 2,553,600,561</u>
TRUST FUND BALANCES, held for Indian Tribes and Other Special Trust Funds (Note 7)	<u>\$ 2,460,048,530</u>	<u>\$ 2,673,865,617</u>	<u>\$ 2,403,721,352</u>	<u>\$ 2,553,600,561</u>

The accompanying notes are an integral part of these statements.

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COMBINED STATEMENTS OF CHANGES IN TRUST FUND BALANCES - CASH BASIS
FOR THE YEARS ENDED SEPTEMBER 30,

	1996	1997
RECEIPTS:		
Interest and dividends earned on invested funds (Note 2B)	\$ 132,513,719	\$ 153,714,298
Net gain on disposition of investments	14,965,058	9,501,186
Other receipts (Note 2C and 9)	<u>374,246,762</u>	<u>443,781,192</u>
	521,725,539	606,996,676
DISBURSEMENTS:		
Payments to and on behalf of Indian Tribes and Other Special Trust Funds and Withdrawal of trust funds by Tribes (Note 2D)	<u>465,398,361</u>	<u>438,885,964</u>
Receipts in excess of disbursements	56,327,178	168,110,712
TRUST FUND BALANCES, beginning of year	2,403,721,352	2,297,852,046
Beginning Trust Fund balances adjustment for cash basis (Note 10)		(62,241,406)
TRUST FUND BALANCES, end of year (Note 7)	<u>\$ 2,460,048,530</u>	<u>\$ 2,403,721,352</u>

Market Value - Information Only

TRUST FUND BALANCES, beginning of year at Market Value	\$ 2,553,600,561	\$ 2,261,723,615
Receipts in excess of disbursements	56,327,178	168,110,712
Unrealized Gain (loss)	<u>63,937,878</u>	<u>123,766,234</u>
TRUST FUND BALANCES, end of year at Market Value (Note 7)	<u>\$ 2,673,865,617</u>	<u>\$ 2,553,600,561</u>

The accompanying notes are an integral part of these statements.

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NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 1998 AND 1997

NOTE 1 -- BACKGROUND AND DESCRIPTION OF THE ORGANIZATION

A. Overview of Trust Funds, the Office of the Special Trustee for American Indians ("OST") and the Office of Trust Funds Management ("OTFM")

Formation of the Trust Funds - The legislation, which authorizes the Secretary of the Interior ("the Secretary") to manage the Tribal and Other Special Trust Funds ("Trust Funds"), recognizes the unique trust relationship that exists between the Indian Tribes and the U.S. Federal Government. Agreements between the U.S. Federal Government and the various Indian Tribes, many of these in the form of treaties, recognize the sovereignty of tribes. During the course of the Nation's history and the U.S. Federal Government's varying policies toward Indian Tribes, the trust relationship has retained characteristics based upon tribal sovereignty.

The balances that have accumulated in the Trust Funds have generally resulted from payments of claims by the U.S. Federal Government, land use agreements, oil, gas and mineral extraction and investment income.

The Secretary has been designated by the U.S. Congress as the primary U.S. Federal Government trustee on behalf of the account holders of the Trust Funds. Through February 8, 1996, the Secretary, in turn, delegated authority for management of the Trust Funds, including accounting and financial reporting, to the Assistant Secretary - Indian Affairs, who carried out the management of the Trust Funds through the Bureau of Indian Affairs ("BIA"). The American Indian Trust Fund Management Reform Act of 1994 ("P.L. 103-412") provided for the establishment of the OST. On February 9, 1996, Secretarial Order 3197 ("the Order") redelegated this authority to OST and transferred the OTFM, and financial trust services performed at BIA Area and Agency Offices, from the BIA to the OST.

Organization of the OST - Trust assets are managed under the delegated authority of the OST and the BIA.

- ♦ Agency and Field Offices - The OST and BIA maintain Agency and Field Offices located throughout the United States. Generally, Agency and Field Offices are physically located near the Tribes served. The Agency and Field Offices may play a significant role in Tribal affairs through assistance in financial planning, financial operations and policy and program development. OST personnel located at most of the Agency Offices perform various functions related to trust funds activities.
- ♦ Area Offices - Each of the Agency and Field Offices is organized under one of the Area Offices. The Area Offices provide administrative and operational support for their respective Agency and Field Offices.
- ♦ Office of Trust Funds Management - The OTFM, established October 26, 1989, and located in Albuquerque, New Mexico, has management responsibility over all Indian Trust Funds. The OTFM carries out its responsibilities through the following Divisions and Staff Offices:

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- ◊ Division of Trust Funds Quality Assurance - This division plans, develops, and implements the OST-wide operational review, evaluation, policies and regulatory management programs. The division advises OST/OTFM management on the efficiency, economy, legality and effectiveness of operations and compliance with all mandated laws and regulations at the program, field and tribal level where appropriate. It identifies, develops, and coordinates the preparation of trust fund management policies and operational procedures.
- ◊ Division of Trust Funds Systems - This division provides daily technical support for trust funds financial accounting systems to end users, including OST, BIA, and tribal employees. The division coordinates OST's ADP and related information management activities and provides support in such areas as acquisition assistance and management, technology assessment, and technical support for office automation hardware, software, and training.
- ◊ Division of Trust Funds Accounting - This division processes and controls accounting activities which record and report funds collected, disbursed, invested, and held in trust. It plans, develops, and recommends policies and procedures governing collection of Trust Funds, as well as monitoring collections and recording of funds. It is also responsible for investment accounting activities and for providing custodial services for investment activities.
- ◊ Division of Trust Funds Services - This division plans, develops, operates, and controls the buying, selling, and trading of investments in accordance with applicable laws, regulations, and policies. It provides technical advice and assistance to Area Offices, Agency Offices, and Indian Tribes in developing financial plans and investment strategies for Trust Funds.
- ◊ Division of Trust Funds Reporting/Reconciliation - This division is responsible for reconciling subsidiary accounts and monitoring Trust Fund activities. The division prepares certain financial and accounting reports for use within the U.S. Federal Government and for inclusion in various OTFM-wide reports.
- ◊ Division of Field Operations - This division coordinates the administrative and technical execution of financial trust programs conducted at subordinate offices; providing or obtaining adequate technical service to guide and support field operations; and evaluating the performance of field level organizations. The division, through its subordinate offices, is also responsible for the work processes related to receiving, recording, and disbursing general trust and judgement funds collected by the BIA, belonging to tribes, and preparing, maintaining, and reconciling records.

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B. Description of the Trust Funds

The Trust Funds are managed by the OTFM and BIA on behalf of Tribes and Other Special Trust Funds. Certain of the Tribal and Special Trust Funds are subject to legal, regulatory, budgetary, court ordered or other restrictions. A brief description of each Trust Fund follows:

- * Tribal Fund - Approximately 315 Tribes have accounts in the Tribal Fund; however, some Tribes have multiple accounts. As a result, approximately 1,700 and 1,600 separate accounts comprise the Tribal Fund as of September 30, 1998 and 1997 respectively. Approximately 49% and 44% of the Tribal Fund assets are held on behalf of six account holders as of September 30, 1998 and 1997, respectively.

Tribes realize receipts from a variety of sources including land use agreements, royalties on natural resource depletion, Tribal enterprises related to trust resources, judgment awards, settlement of Indian claims and investment income.

- * Other Special Trust Funds - Other Special Trust Funds represent other trust assets currently managed by the OTFM. Authorization for management of these assets is based on U.S. Congressional Acts establishing such funds. Each of these funds either reverts back to the U.S. Federal Government upon certain conditions, or the corpus of the fund is non-expendable. A brief description of each Fund follows:
 - o Alaska Native Escrow Fund - The Alaska Native Escrow Fund was established by U.S. Congressional act for Alaska Native Corporations and Villages for land of which boundaries were disputed. Proceeds received or deposited into this fund are derived primarily from contracts, leases, licenses, permits, rights-of-way, etc. The proceeds, plus accrued interest, are paid out to the appropriate corporation or individual to which the land is conveyed by the U.S. Federal Government.
 - o Cochiti Wetfields Fund - The Pueblo de Cochiti ("Pueblo") and the U.S. Army Corps of Engineers entered into a settlement agreement for water seepage problems at the Cochiti Dam on Tribal lands. The agreement established a fund for the sole and specific purpose of operating, maintaining, repairing and replacing this drainage system. Although the fund is invested and managed by the OTFM, the fund remains the property of the United States, and will revert to the Department of the U.S. Treasury ("Treasury") if Cochiti Dam becomes non-operational and the Pueblo agrees that the drainage system is no longer needed.
 - o Papago Cooperative Fund - The Tohono O'odham Nation, with respect to the San Xavier Reservation and the Schuk Toak District of the Sells Papago Reservation, was awarded a settlement in the form of water rights for water that was taken from reservation land. The water rights give the

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B. Interest Receipts

Tribal Trust and Other Special Trust Funds are invested separately by account with interest recorded based on actual income received from each investment. Interest is received in two ways: (1) directly from investment securities in which the Trust Funds are placed, such as certificates of deposit at financial institutions or U.S. Treasury, Agency or U.S. Federal Government sponsored securities, or (2) from a U.S. Treasury overnight investment ("overnighter"), which earns a rate comparable to "Fed Funds" rates. The interest on the overnigher investments is calculated daily, compounded, accumulated separately for participating accounts and posted to the separate accounts monthly.

C. Other Receipts

Approximately 27% and 33% of other receipts are as a result of claims and judgment awards to Tribes and Other Special Trust Funds by the U.S., State and local governments, and private entities and individuals for the years ended September 30, 1998 and 1997 respectively.

Other trust receipts are generated from a variety of assets that are held in trust by the U.S. Federal Government and managed by the various Agencies and the BIA on behalf of Tribes. Such amounts include receipts from various leasing activities, mineral royalties, and sales of extracted minerals, timber and forest products, fees and fines, and the granting of easements.

D. Disbursements

Payments disbursed to Tribes and Other Special Trust Funds consist of investment income as well as funds from various income producing activities such as leasing, royalty payments, minerals extraction and timber and forest product sales. Under certain conditions, Tribes disburse per capita payments to their enrolled members from the Trust Funds. Payments are made to Tribes from the proceeds of various judgment awards. Upon submission and approval of the required documentation, Tribes may submit requests for payments in accordance with terms and conditions of the awards.

P.L. 103-412 specifically allows for the voluntary withdrawal from the Trust Funds program. An Indian Tribe may submit a plan to withdraw some or all funds held in trust for the Tribe. The plan must be approved by the Secretary, DOI, and the appropriate Tribal governmental body, and must provide an indication as to the capability and experience of the individuals or institutions managing the Trust Funds. During fiscal year 1997, one Tribe withdrew approximately \$60 million pursuant to P.L. 103-412.

E. Significant Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly,

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Tribe flexibility in the management of water resources and encourage allocation of those resources to their highest and best uses. The awarded funds are to be used for Tribal government, health, education, social services, capital improvements and economic development programs.

- 0 Contributed Funds - The OTFM maintains eight (8) contributed funds that were established by donations. The individual funds each have a specific use or purpose in some form to better the lives of American Indians by giving assistance for education.
- 0 George C. Edgater Fund - This fund is available, according to the terms of the bequest, for expenditure as determined by the Assistant Secretary - Indian Affairs for the relief of indigent American Indians.

C. Investment of Trust Fund Assets

Authorizing legislation and a substantial body of case law specify how the Indian Trust Fund assets should be managed and which financial instruments constitute appropriate investments for Indian Trust Funds. Trust funds are directly invested in U.S. Federal Government securities, including U.S. Treasury and U.S. Federal Government Agency issues, as well as certain other securities that are guaranteed by the U.S. Federal Government. A portion of Indian Trust Funds are also invested with financial institutions at which such deposits are covered by Federal depository insurance.

NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The OTFM uses the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles, for the Tribal and Other Special Trust Funds. The cash basis of accounting differs from generally accepted accounting principles in that receivables and payables are not recorded and premiums and discounts are not amortized or accreted. Investments are stated at historical cost. Interest receipts reported in the Statement of Changes in Trust Fund Balances reflect the interest received during the fiscal year. The financial statements include a market value column for informational purposes. The market value information is integral to the fiduciary responsibilities of the OTFM.

The Indian Trust Funds account for assets held for others in a trust capacity and do not involve measurement of operations. Receipts are recorded when received, because it is not practicable to measure the majority of such items prior to receipt. Accordingly, receivables are not reflected in the accompanying financial statements. The accompanying financial statements include only the balances held in trust by the OST and OTFM for others and do not include (1) the account balances of the OST and OTFM (general appropriations, personnel and occupancy costs, etc.), or (2) the values of Indian lands, buildings or other non-monetary assets regardless of the source of funding (Tribal monies, Congressional appropriations, Indian Trust Fund resources, etc.).

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actual results could differ from those estimates. Management considers the market value of investments one such significant estimate.

NOTE 3 -- ACCOUNTING SYSTEMS AND MATERIAL INTERNAL CONTROL WEAKNESSES

The accounting systems, subsystems and internal control procedures used by the OST and the OTFM have historically suffered from a variety of system and procedural internal control weaknesses. Some of these weaknesses along with their improvements are as follows:

- A. There were and still are some gaps of consistency in the application of accounting and related procedures being utilized OTFM-wide, which cause accounting errors in the Indian Trust Funds. Standardized documented policies and procedures are in various stages of development to address all significant accounting processes.
- B. There is inadequate segregation for many key duties, particularly in the accounting processes performed at the Area and Agency Offices. Efforts have been implemented to centralize the accounting input functions to the central office, which is expected to address the segregation of conflicting duties issue.
- C. Records management is inconsistent and inadequate to ensure the proper filing and safekeeping of Trust Fund records to support trust financial activity, however, a mandatory documents policy has been adopted and verification of these mandatory documents will be checked in the centralized accounting pre-posting review procedures.
- D. Prior to October 1998, internal financial statements were not being prepared in accordance with the cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. The OTFM did compile a Statement of Assets and Trust Fund Balances and Statement of Changes in Trust Fund Balances as of and for the month ended October 31, 1998 and is expected to compile financial statements on a quarterly basis.
- E. There is an unreconciled difference of approximately \$35,000,000 between the total cash balances reflected by the OTFM for Tribal and Other Special Trust Funds and Individual Indian Monies and the balances reported by Treasury as of September 30, 1998 and 1997. Treasury reports reflect balances less than OTFM balances. Issue papers and proposed action plans for these differences have been shared with departmental personnel and are the subject of interdepartmental discussions.
- F. Many individual Tribal accounts need to be reconciled and/or resolved through negotiation and settlement before reliance can be placed on the balances reflected in the Trust Fund accounts. Upon resolution, it may be possible to reconcile OTFM cash balances to Treasury. Issue papers and proposed action plans for these differences have been shared with

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OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS
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departmental personnel and are the subject of interdepartmental discussions.

- G. Uncertainties regarding the division of responsibilities between BIA and OTFM staff resulted in inconsistent implementation of responsibilities.

In an effort to address these pervasive issues, the OTFM was placed under the direction of the OST, effective February 9, 1996 with Secretarial Order 3197. The Secretary's decision on system improvements and data clean up were organized into separate, but complementing sub projects, which comprise the Trust Management Improvement Project ("TMIP"). The High Level Implementation Plan ("HLIP") for the TMIP provides information on and describes each of the 13 sub projects, responsible Bureaus and Offices, supporting tasks, critical milestones, work plans, resource estimates, and accountable officials.

NOTE 4 -- CASH AND OVERNIGHT INVESTMENTS

Tribal and Other Trust Funds are disbursed by the OTFM through disbursing functions provided by the Department of the Treasury. Vouchers and Schedules of Payments are submitted to the Treasury and processed through an electronic processing and certification system. Upon verification that Treasury has processed and issued the resulting disbursements, corresponding accounting entries are recorded into the respective trust fund accounts. Starting with fiscal year ending September 30, 1992, Treasury checks are only negotiable for one year from the date of issuance, and the OTFM receives credit, and credits back to the appropriate account holders, amounts on checks that are not negotiated. Cash balances consist of cash deposits to Treasury between the cut-off time for overnight investment, 1:00 p.m. (MST/MDT), and the end of the business day. Amounts on hand at the Area and Agency Offices waiting for deposit to Treasury are not included in the financial statements.

Overnight investments consist of available cash invested with Treasury.

NOTE 5 -- INVESTMENTS

Investments are recorded at unamortized historical cost.

The Trust Fund assets have a concentration of credit risk in U.S. Federal Government securities as mandated by 25 USC 162.

Certificates of Deposit

All Certificates of Deposits as of September 30, 1998 and 1997 were covered by depository insurance.

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Investments (at fair market value) with scheduled maturities are as follows:

	Tribal Trust	Other Special Trust Funds	Combined Total
September 30, 1998:			
U.S. Treasury and Agency securities:			
Overnight investments	\$ 270,574,963	\$ 2,838,883	\$ 273,413,846
Less than 1 Year	233,387,412	8,587,869	241,975,281
1 - 5 Years	469,816,749	24,531,093	494,347,842
5 - 10 Years	844,533,757	14,764,993	859,298,750
Greater than 10 Years	676,195,694	3,075,051	679,270,745
	<u>2,494,508,575</u>	<u>53,797,889</u>	<u>2,548,306,464</u>
Certificates of Deposit, 1 - 5 years	607,865		607,865
Equities with no scheduled maturities	5,131,035		5,131,035
Mortgage backed securities with varying maturities	103,687,933		103,687,933
	<u>\$2,603,935,408</u>	<u>\$ 53,797,889</u>	<u>\$ 2,657,733,297</u>
September 30, 1997:			
U.S. Treasury and Agency securities:			
Overnight investments	\$ 289,077,794	\$ 770,654	\$ 289,848,448
Less than 1 Year	289,944,929	2,703,752	292,648,681
1 - 5 Years	741,287,707	20,105,364	761,393,071
5 - 10 Years	849,045,566	7,749,566	856,795,132
Greater than 10 Years	216,168,749	16,907,361	233,076,110
	<u>2,385,524,745</u>	<u>48,236,697</u>	<u>2,433,761,442</u>
Certificates of Deposit:			
Less than 1 Year	4,790,805		4,790,805
1 - 5 Years	607,865		607,865
	<u>5,398,670</u>		<u>5,398,670</u>
Equities with no scheduled maturities	7,814,213		7,814,213
Mortgage backed securities with varying maturities	105,891,225		105,891,225
	<u>\$2,504,628,853</u>	<u>\$ 48,236,697</u>	<u>\$ 2,552,865,550</u>

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NOTE 6 -- COMMITMENTS AND CONTINGENCIES

The Secretary has been designated by the U.S. Congress as the primary fiduciary with responsibility for monetary resources held in trust, collecting all monies due from outside individuals/organizations for the use of Indian lands and the extraction of natural resources from Indian lands, and disbursing such monies collected to the appropriate beneficiaries.

Tribal organizations have filed various claims against the United States for failure to fulfill its fiduciary responsibilities and for related charges. Neither the OTFM nor the Office of the Solicitor for the U.S. Department of the Interior can presently determine the outcome of these actions or the total amount, responsibility and funding source of the potential liability.

Any actual liabilities resulting from adverse outcomes of the contingencies described above are generally expected to be satisfied with U.S. Federal Government funds, and not assets of the Trust Fund. No amounts have been accrued in the accompanying Trust Fund financial statements for potential claims receivable from the U.S. Federal Government.

NOTE 7 -- TRUST FUND BALANCES

Trust Fund balances are the aggregation of monetary assets held in trust and represent the amounts owed to beneficiaries as of September 30, 1998 and 1997, for which the OTFM has a fiduciary responsibility.

Included in the Tribal Trust Funds are balances not presently identified to specific Tribes because judgment awards were granted to several Indian Tribes in a particular geographic area for settlement of claims related to certain lands.

Tribal organizations have filed various claims against the United States for failure to fulfill its fiduciary responsibilities and for related charges. Neither the OTFM nor the Office of the Solicitor for the U.S. Department of the Interior can presently determine the outcome of these actions or the total amount, responsibility and funding source of the potential liability.

Any actual liabilities resulting from adverse outcomes of the contingencies described above are generally expected to be satisfied with U.S. Federal Government funds, and not assets of the Trust Fund. No amounts have been accrued in the accompanying Trust Fund financial statements for potential claims receivable from the U.S. Federal Government.

NOTE 8 -- SIGNIFICANT TRANSACTIONS WITH OTHER U.S. FEDERAL GOVERNMENT ORGANIZATIONS

Debt Arrangements

The BIA is a party to various note payable agreements. These agreements are primarily between the Indian Tribes and the U.S. Department of Agriculture Farmers Home Administration ("FmHA") or the U.S. Department of Commerce Economic Development

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Administration ("EDA"). The proceeds of the FmHA loans are used by Indian Tribes to repurchase fractional ownership interests in allotted lands from individual Indians.

The receipts from the acquired ownership interests are deposited into "Special Deposit" accounts in the IIM Trust Fund, and principal and interest payments are made from these accounts. EDA loans are utilized for construction of Tribal facilities (governmental/administrative buildings, and facilities for enterprise activities such as manufacturing, hotel/motel facilities, etc.). Individual Tribes are liable for repayment of these loans. Proceeds of Labor Trust Fund accounts may be utilized for repayment of these loans.

Minerals Management Services

The OTFM receives royalty payments from the U.S. Department of the Interior Minerals Management Service ("MMS") on behalf of Indian Tribes and Individuals Indians holding mineral rights. MMS generally transfers the royalty payments to the OTFM upon receipt. At the time the royalty payments are received, MMS provides the OTFM with a breakdown of 100% Tribally owned lease royalties, thus permitting the OTFM to allocate the receipts directly into Tribal accounts. For Tribally and individually co-owned leases, the royalty payments are forwarded by MMS and subsequently distributed through the Royalty Distribution Reporting System ("RDORS"). MMS and the Bureau of Land Management both perform verification and other monitoring procedures of mineral assets.

Oil and gas companies sometimes make overpayments to MMS. These are first paid to the OTFM on behalf of Indian Tribes and individuals, and then disbursed by the OTFM to the beneficiaries. The overpayments generally result from payments being made based on estimated mineral production, in order to comply with the Federal Oil and Gas Royalty Management Act of 1982 which requires timely distribution of royalties. Typically, the oil and gas companies recover such overpayments by adjusting future payments. The amount of such overpayments if any as of September 30, 1998 and 1997 are not readily determinable and has not been quantified in these financial statements.

Other

As discussed in Note 4, the Treasury holds cash and overnight investments and disburses for the OTFM. As discussed in Note 6, the DOI Office of the Solicitor serves as legal counsel for the OST and OTFM.

NOTE 9 -- TRANSFERS

The OTFM receives monies into IIM special deposit accounts for both Tribal and IIM beneficiaries. These accounts are to be used as suspense accounts to which funds are posted when the allocation is not immediately clear. Funds are subsequently transferred from the IIM system to the appropriate Tribal account when the proper allocations are determined by BIA. These transfers amounted to approximately \$49,000,000 and \$43,000,000 during the fiscal years ended September 30, 1998 and 1997, respectively. The other receipts category of the Statement of Changes in Trust Fund Balances includes these net transfers. The amount of monies not yet transferred has

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SEPTEMBER 30, 1998 AND 1997

not been quantified in these Tribal and Other Special Trust Funds financial statements.

NOTE 10 -- RESTATEMENT OF BEGINNING FUND BALANCE

In audits of the fiscal years ended September 30, 1995 and September 30, 1996 the audit coverage was intended to meet the requirements of the Chief Financial Officers Act of 1990 ("CFO Act") and contained adjustments to reflect accrued interest and dividends, and amortization of premium or accretion of discount. However, following management's consultations with the Department of the Interior and officials of the Office of Management and Budget ("OMB"), a consensus was achieved to account for Tribal and Other Special Trust Funds on a cash basis. The basis for this position is that the majority of assets held in trust for American Indians are owned by the account holders and are not Federal assets. This method of financial statement presentation is consistent with periodic account statements provided to account holders.

The Federal Financial Accounting Standards Advisory Board issued Interpretation Number 1 which indicated that the Indian trust funds were not federal monies, and therefore, superseded the hierarchy of accounting principles, for the Indian trust funds, that were approved by the Secretary of the U.S. Treasury, The Director of the OMB and the U.S. Comptroller General for use by U.S. Federal Government entities. This interpretation no longer required the Indian trust funds to use the reporting requirements as outlined in OMB Bulletins No. 94-01 and 97-01 (Form and Content of Agency Financial Statements). Previous Indian trust fund financial statements (fiscal years ended September 30, 1995 and 1996) were prepared under the requirements of OMB Bulletins No. 94-01 and 97-01.

Beginning with the fiscal year, 1997, the OTTM used the cash basis of accounting to prepare the annual Tribal and Other Special Trust Funds financial statements. The net accrual and amortization/accretion at September 30, 1996 amounted to \$62,241,406.

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TRIBAL AND OTHER SPECIAL TRUST FUNDS
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SUPPLEMENTARY COMBINING SCHEDULES
SEPTEMBER 30, 1998 AND 1997

U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS
TRIBAL AND OTHER SPECIAL TRUST FUNDS
MANAGED BY THE
OFFICE OF TRUST FUNDS MANAGEMENT

SUPPLEMENTARY COMBINING
SCHEDULE OF ASSETS AND TRUST FUND BALANCES - CASH BASIS
SEPTEMBER 30, 1998

	<u>Tribal Trust</u>	<u>Other Special Trust Funds</u>	<u>Combined Total</u>
ASSETS			
Cash (Note 4)	\$ 16,166,462	\$ (34,142)	\$ 16,132,320
Investments (Notes 1C, 4 and 5):			
Overnight investments	270,574,963	2,838,883	273,413,846
U.S. Treasury and Agency securities	2,017,444,998	49,190,570	2,066,635,568
Certificates of deposit	607,865		607,865
Equity securities - TVA preferred stock	4,898,750		4,898,750
Mortgage backed securities	98,360,181		98,360,181
Total investments	<u>2,391,886,757</u>	<u>52,029,453</u>	<u>2,443,916,210</u>
Total assets	<u>\$2,408,053,219</u>	<u>\$51,995,311</u>	<u>\$2,460,048,530</u>
TRUST FUND BALANCES, held for Indian Tribes and Other Special Trust Funds (Note 7)	<u>\$2,408,053,219</u>	<u>\$51,995,311</u>	<u>\$2,460,048,530</u>

Market Value Information Only

ASSETS			
Cash (Note 4)	\$ 16,166,462	\$ (34,142)	\$ 16,132,320
Investments (Notes 1C, 4 and 5):			
Overnight investments	270,574,963	2,838,883	273,413,846
U.S. Treasury and Agency securities	2,223,933,612	50,959,006	2,274,892,618
Certificates of deposit	607,865		607,865
Equity securities - TVA preferred stock	5,131,035		5,131,035
Mortgage backed securities	103,687,933		103,687,933
Total investments	<u>2,603,935,408</u>	<u>53,797,889</u>	<u>2,657,733,297</u>
Total assets	<u>\$2,620,101,870</u>	<u>\$53,763,747</u>	<u>\$2,673,865,617</u>
TRUST FUND BALANCES, held for Indian Tribes and Other Special Trust Funds (Note 7)	<u>\$2,620,101,870</u>	<u>\$53,763,747</u>	<u>\$2,673,865,617</u>

The accompanying notes are an integral part of these schedules.

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OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS
TRIBAL AND OTHER SPECIAL TRUST FUNDS
MANAGED BY THE
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SUPPLEMENTARY COMBINING
SCHEDULE OF CHANGES IN TRUST FUND BALANCES - CASH BASIS
FOR THE YEAR ENDED SEPTEMBER 30, 1998

	Tribal Trust	Other Special Trust Funds	Combined Total
RECEIPTS:			
Interest and dividends earned on invested funds (Note 2B)	\$ 129,201,374	\$ 3,312,345	\$ 132,513,719
Net gain(loss) on disposition of investments	12,344,716	2,620,342	14,965,058
Other receipts (Notes 2C and 9)	<u>373,768,830</u>	<u>477,932</u>	<u>374,246,762</u>
	515,314,920	6,410,619	521,725,539
DISBURSEMENTS:			
Payments to and on behalf of Indian Tribes and Other Special Trust Funds and Withdrawal of trust funds by Tribes (Note 2D)	<u>465,151,312</u>	<u>247,049</u>	<u>465,398,361</u>
Receipts in excess of disbursements	50,163,608	6,163,570	56,327,178
TRUST FUND BALANCES, beginning of year	<u>2,357,889,611</u>	<u>45,831,741</u>	<u>2,403,721,352</u>
TRUST FUND BALANCES, end of year (Note 7)	<u>\$2,408,053,219</u>	<u>\$ 51,995,311</u>	<u>\$2,460,048,530</u>

Market Value Information Only

TRUST FUND BALANCES, beginning of year at Market Value	\$2,505,416,721	\$ 48,183,840	\$2,553,600,561
Receipts in excess of disbursements	50,163,608	6,163,570	56,327,178
Unrealized gain (loss)	<u>64,521,541</u>	<u>(583,663)</u>	<u>63,937,878</u>
TRUST FUND BALANCES, end of year at Market Value (Note 7)	<u>\$2,620,101,870</u>	<u>\$ 53,763,747</u>	<u>\$2,673,865,617</u>

The accompanying notes are an integral part of these schedules.

U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS
TRIBAL AND OTHER SPECIAL TRUST FUNDS,
AND INDIVIDUAL INDIAN MONIES TRUST FUNDS
MANAGED BY THE
OFFICE OF TRUST FUNDS MANAGEMENT

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON INTERNAL CONTROLS

SEPTEMBER 30, 1998

SUMMARY OF ISSUES
September 30, 1998

<u>Reported in Fiscal Year</u>	<u>Description</u>	<u>Issue #</u>	<u>Resolved</u>	<u>Unresolved and Currently Reported as Issue Number</u>
1995	Cash - Tribal and IIM	1	No	1
1995	Investments	2	Yes	N/A
1995	Trust Fund Balances - Tribal and IIM	3	No	3
1995	Area and Agency Offices - Tribal and IIM	4	No	31
1995	Cash - Tribal	5	No	5
1995	Investments Records Management	6	Yes	N/A
1995	IIM Special Deposit - IIM	7	No	24
1995	Ownership Records	8	No	8
1995	Policies and Procedures - Tribal and IIM	9	Yes	N/A
1995	Accounts Receivable System	10	No	10
1995	Cash Reconciliation Process	11	Yes	N/A
1995	Disaster Recovery - IIM	12	No	42
1995	Password Controls - IIM	13	No	42
1995	Application Change Controls - IIM	14	Yes	N/A
1995	Conversion to OmniTrust	15	Yes	N/A
1995	1099 Interest Reporting - IIM	16	No	16
1996	Inadequate Internal Financial Reporting - Tribal and IIM	17	No	17
1996	Area and Agency Offices - Unauthorized Transactions - Tribal and IIM	18	No	18
1996	Ineffective Implementation of Policies and Procedures - Tribal and IIM	19	No	31
1996	Cash - Failure to Analyze Suspense Accounts - Tribal and IIM	20	No	20
1996	Cash - Lack of Supporting Documentation Prior to Recording Transactions	21	Yes	N/A

<u>Reported in Fiscal Year</u>	<u>Description</u>	<u>Issue #</u>	<u>Resolved</u>	<u>Unresolved and Currently Reported as Issue Number</u>
1996	Investments -Lack of Reliable IIM Balance Available for Investing - IIM	22	No	22
1996	Investments - Accounting System Calculation Errors	23	Yes	N/A
1996	Special Deposit Accounts - Lack of Policies and Procedures and Inconsistent Practices - IIM	24	No	24
1996	IIM Interest Earnings - Inadequate System, Policies and Procedures - IIM	25	Yes	N/A
1996	Negative IIM Account Balances Included in Invested Balance - IIM	26	No	26
1996	IIM Amortization/Accretion of Mortgage Backed Securities	27	Yes	N/A
1996	Trust Fund Balance Transfers Recorded Inconsistently - Tribal and IIM	28	Yes	N/A
1996	Earnings on Overnight Investments	29	Yes	N/A
1996	Investment/Bolt II System Implementation	30	Yes	N/A
1997	Ineffective Implementation of Policies and Procedures - Tribal and IIM	31	No	31
1997	Missing and/or Incomplete Documents - Tribal and IIM	32	No	32
1997	Improper Transaction Coding - Tribal and IIM	33	No	33
1997	Missing and/or Incomplete Documents - Tribal and IIM	34	No	34
1997	Cash and Overnighter Investments - Lack of Transfer Transaction Procedures - Tribal and IIM	35	Yes	N/A

<u>Reported in Fiscal Year</u>	<u>Description</u>	<u>Issue #</u>	<u>Resolved</u>	<u>Unresolved and Currently Reported as Issue Number</u>
1997	Investments - Lack of Manual Adj Procedures & Lack of Carry Value Reconciliation - Tribal and IIM	36	No	36
1997	Investments - Inadequate Procedures Relating to Market Pricing and Stated Market Values - Tribal and IIM	37	No	37
1997	Inconsistent Practices regarding Disbursements from Tribal Accounts - Tribal	38	Yes	N/A
1997	Investments - Lack of Contract Compliance - Custodial Reconciliation - Tribal and IIM	39	No	39
1997	Fund Balance - Accepting Non - Trust Beneficiaries and Non- Trust Funds - Tribal and IIM	40	No	40
1997	Area and Agency - Bureau of Indian Affairs Trust Responsibilities - Tribal and IIM	41	No	41
1998	Trust Systems	42	No	42

GRIFFIN & ASSOCIATES, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

DAN D. GRIFFIN

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON INTERNAL CONTROL STRUCTURE

To the U.S. Department of the Interior
Office of the Special Trustee for American Indians:

We have audited the Statements of Assets and Trust Fund Balances and the related Statements of Changes in Trust Fund Balances for Tribal and Other Special Trust Funds, and Individual Indian Monies trust funds ("IIM") managed by the U.S. Department of the Interior Office of the Special Trustee for American Indians ("OST") Office of Trust Funds Management ("OTFM") as of and for the years ended September 30, 1998 and 1997, and have issued our report thereon dated January 22, 1999.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the OTFM is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with the cash basis of accounting used to prepare the Tribal and Other Special Trust Funds financial statements, and the modified cash basis of accounting used to prepare the Individual Indian Monies Trust Funds financial statements. Also, projection of any evaluation of the internal control structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audits of the Statement of Assets and Trust Fund Balances and the related Statement of Changes in Trust Fund Balances for the Tribal and Other Special Trust Funds, and Individual Indian Monies managed by the OTFM as of and for the years ended September 30, 1998 and 1997, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing an opinion on the Statement of Assets and Trust Fund Balances and the related Statement of Changes in Trust Fund Balances and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion. Also, for those significant internal control structure policies and procedures that were properly designed and placed in operation, we performed tests to determine whether such policies and procedures were operating effectively at September 30, 1998 and 1997.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. These matters are described in the "Reportable Conditions" section of this report. Reportable conditions involve

matters coming to our attention relating to significant deficiencies in the design or operation of internal control structure that, in our judgment, could adversely affect OTFM's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. These matters are described in the "Material Weakness" section of this report.

We also noted other matters involving the internal control structure and its operation as well as certain other advisory comments, which we did not consider to be reportable conditions. These comments are set forth in the "Other Advisory Comments" section of this report.

In the Reports of Independent Public Accountants on Internal Control Structure for the years ended September 30, 1997, 1996 and 1995, we noted matters involving the internal control structure and its operation that we considered to be material weaknesses, reportable conditions and other advisory comments. The disposition of these matters is set forth in the "Summary of Issues" section of the report.

GENERAL - TRIBAL AND ITM

The accounting systems and internal control procedures used by the OTFM have historically suffered from a variety of system and procedural internal control weaknesses. In addition, current management is burdened with the ongoing impact of decades of accumulated errors in the accounting records. These factors place significant limitations on management's ability to effectively manage the trust funds entrusted to the OTFM.

In an effort to address these pervasive issues, the OTFM was placed under the direction of the OST, effective February 9, 1996 with Secretarial Order 3197. The Secretary's decision on system improvements and data clean up were organized into separate, but complementing Sub projects, which comprise the Trust Management Improvement Project ("TMIP"). The High Level Implementation Plan (the "Plan") for the TMIP provides information on and describes each of the 13 Sub projects, responsible Bureaus and Offices, supporting tasks, critical milestones, work plans, resource estimates, and accountable officials.

The following are excerpts from the High Level Implementation Plan prepared by the U.S. Department of the Interior, Trust Management Improvement Project, dated July 1998.

"Concern about the management of Indian Trust funds is a longstanding issue. As early as 1928, the U.S. General Accounting Office (GAO) - the investigative research arm of Congress - issued reports documenting weak accounting practices and other problems in BIA's trust funds management. Since then, there have been numerous reports highlighting weaknesses in management and accounting practices from such overseeing entities as the Congressional Committees, the Office of Management and Budget (OMB), the Inspector General and Department Bureau reviews as well as outside contractor reports."

"In 1994, Congress passed the American Indian Trust Fund Management Reform Act of 1994, 25 United States Code (U.S.C.) §§4001-4061, which established the OST. Under this legislation, the Special Trustee, who reports to the Secretary of the Interior, is responsible for oversight, reform, and coordination of the policies, procedures, systems and practices used by various Departmental agencies in managing Indian trust assets. Specifically, the Special Trustee was charged with preparing and submitting a comprehensive strategic plan for all phases of the trust management business cycle that would ensure the proper and efficient discharge of the Secretary's trust responsibilities to Indian Tribes and individual Indians in compliance with the Act. The Act also defined the following, as positive actions required of the Secretary necessary to properly discharge the trust responsibilities of the United States:

- Providing adequate systems for accounting for and reporting trust fund balances;
- Providing adequate controls over receipts and disbursements;
- Providing periodic, timely reconciliations to assure the accuracy of accounts;"
- "Preparing and supplying account holders with periodic statements of their account performance and with balances of their account which shall be available on a daily basis;
- Establishing consistent, written policies and procedures for trust fund management and accounting;
- Providing adequate staffing, supervision, and training for trust fund management and accounting;"
- "Properly accounting for and investing, as well as maximizing, in a manner consistent with the statutory restrictions imposed on the Secretary's investment options, the return on the investment of all trust fund monies;
- Preparing accurate and timely reports to account holders (and others, as required) on a periodic basis regarding all collections, disbursements, investments, and return on investments related to their trust accounts;

In April 1997 the Special Trustee submitted his Strategic Plan to Implement the Reforms required by the American Indian Trust Fund Management Reform Act of 1994.

Notwithstanding the Secretary's reservations about certain aspects of the Plan, the Secretary agreed that the trust system improvements and data clean up efforts in the Plan could and should proceed as soon as possible within the organizational structure of the Department.

The Secretary's decision on system improvements and data clean up were organized into separate, but complementing Sub projects, which comprise the Trust Management Implementation Plan (TMIP).

The approach selected to implement the Secretary and Special Trustee's agreements on portions of the Special Trustee's Strategic Plan is centered on 13 major Sub projects. These Sub projects were identified and designed to ensure coverage of not only the data clean up and systems improvements directed by the Secretary, but also to address the long standing deficiencies cited by external oversight groups with regard to the support systems - records management, training, policy and procedures, and internal controls."

The Sub projects that the OTFM significantly contributes to are:

- **OST Financial Data Clean Up** - In this Sub project, OST will standardize and verify IIM system data for trust resource records, and correct and establish an inventory of hard copy records for each trust fund account.
- **Trust Funds Accounting System** - This Sub project will acquire, install and pilot, using a service bureau approach, a proven commercial off the shelf trust accounting system to replace the present BIA IIM accounting module.
- **Records Management** - Under this Sub project, a joint Records Management solution for Interior trust records will be developed and implemented, involving OST, BIA, MMS, BLM, OHA and other relevant DOI Offices. The scope includes Indian trust records management, storage, access, control and disposition, and contemplates electronic record keeping, including imaging technology.
- **Policy and Procedures** - DOI trust policies and procedures will be inventoried, reviewed and, where appropriate, revised or established. This Sub project specifically involves and includes representatives of OST, BIA, MMS, BLM, OHA and other Departmental Offices involved in Indian trust management.
- **Training** - The Training Sub project will plan and deliver both trust management and employee skills training relevant to delivery of Interior's trust fiduciary responsibilities to American Indians. Training will be provided across the Interior trust workforce and include Tribes and participating contractors.
- **Internal Controls** - The Sub project will systematically address documented internal control deficiencies in Indian trust management, item by item, that have been identified through internal and external audit, Congressional oversight and outside reviews. Corrective actions will be validated and/or designed to assure resolution of all internal control weakness.

The other Sub projects are:

- BIA Resources Data Clean Up
- BIA Probate Backlog
- Trust Asset and Accounting Management System
- OHA Probate Backlog
- BIA Appraisal Program
- IRIS Enhancements
- Minerals Management Service (MMS) System Reengineering

Current Year - September 30, 1998

OTHER ADVISORY COMMENTS

Trust Systems (42)

Note: Issues 12 and 13 address Trust systems. They have been combined and are currently being reported as issue number 42.

• System Security (BIA)

As part of our audit related to electronic data processing ("EDP"), we reviewed system security. Based upon our review we noted:

- ✓ Periodic reviews of system reports were not being performed.
- ✓ Specific, clearly defined information security policies and procedures for system security monitoring do not exist.

Adequate audit trails should exist and be reviewed so that adverse activity on general support systems can be prevented or detected. By not reviewing security-related reports, there is an increased risk that computer resources may be altered without authorization and without detection through normal operating controls.

• Physical Access to the Operations Service Center ("OSC") at BIA

As part of our audit related to EDP, we reviewed physical access to the computer room, which houses the IRMS system and other critical Trust Systems equipment and documents. At present there are 103 active access cards. Based upon our review we noted:

- ✓ Not all cards are assigned to specific individuals
- ✓ Certain individuals are in possession of multiple cards
- ✓ A number of contractors with limited need are in possession of access cards
- ✓ A number of OSC personnel whose job function should not require access to the computer room are in possession of access cards
- ✓ Two individuals from the Division of Accounting Management are in possession of access cards

Control measures to protect Trust systems from unintentional damage and data from unauthorized disclosure or modification and access to sensitive areas must be strengthened.

• Documentation

Per our review of access to the IIM system ("IRMS"), we noted that the access request forms, which document assigned user codes and passwords are not stored in a secure location at the OTFM.

Without strong controls to safeguard against unauthorized access to assigned user codes and passwords, the risk of unauthorized modifications to trust data is increased.

• **Password Controls (BIA)**

Per our review of access to IRMS, we noted that there are inadequate controls of user codes and passwords including:

- ✓ User codes are not routinely removed for terminated or transferred employees
- ✓ Passwords are not changed on a regular basis
- ✓ Complete documentation does not exist to readily identify the owner of each user code

Without strong controls related to the access to sensitive trust systems, the risk of unauthorized modifications to trust data is increased. Additionally, any unintended modifications may be difficult to detect and correct without an adequate audit trail.

• **Disaster Recovery Plan (BIA)**

In the event of a disaster, an agreement exists to perform remote processing of IIM applications in Scottsdale, Arizona. However, the disaster recovery plan has not been tested since the conversion of the Unisys A17 to the Unisys NX Clearpath Server. It has been almost two years since the last test was performed. Without a proven recovery plan, the possibility exists that Trust operations would not resume within a reasonable period of time in the event of a disaster.

Recommendation (42): Management should develop and implement written policies and procedures defining appropriate system security, physical access, documentation standards, password controls and disaster recovery plans including, but not limited to the following:

- a) System generated security reports are periodically run and reviewed for unusual activity.
- b) Immediate revocation of access upon termination, retirement or transfer of an employee (Should be part of employee check out procedure).
- c) Periodic review of issued cards and access levels for staff changes.
- d) Granting access only to those individuals whose job function requires access on a routine basis.
- e) Documentation that discloses trust system user codes and passwords be in a secured location at all times.
- f) Passwords be periodically changed.
- g) Every user code be readily identified to a specific user.
- h) A full test of the disaster recovery plan should be performed as soon as possible.

CLIENT RESPONSE (42): The OTM has no control over the security procedures for the IIM application of the IRMS, physical access controls to the Operations Service Center nor password controls for IRMS. These functions are either under the control of the BIA or are located at BIA offices.

Beginning in the fiscal year 1999 the Division of Trust Funds Systems stores the access request forms in a locked area. The Branch of Internal Review will verify this during their periodic reviews.

The OSC is scheduled to conduct a disaster recovery test during the third quarter of fiscal year 1999.

The conversion of both OmniTrust and IRMS systems to Trust Funds Accounting Systems ("TFAS"), scheduled to be completed in fiscal year 2000, is expected to resolve the EDP issues. The Branch of Internal Review will conduct periodic reviews of the security application process for TFAS. Passwords on TFAS will be changed every thirty days. TFAS has an internal memory feature that prohibits use of the same

password on a repeat basis. A database of user ID's containing name, location and telephone number of each user is maintained by the OTFM. The Division of Trust Funds Systems is now notified when employees are terminated or transferred. A disaster recovery test of TFAS is scheduled for the first quarter of fiscal year 2000.

Prior Year - September 30, 1997

OST has made considerable efforts towards improving the accounting systems and internal controls in place within the OTFM. We have considered this as ongoing reform efforts, and have adjusted certain past "Material Weaknesses" to "Reportable Conditions" and certain past "Reportable Conditions" to "Other Advisory Comments" based on the progress made to date and the expectation that these items will soon be resolved due to the initiatives and centralization efforts that are in place. We will continue to monitor the progress of the past items and report on them appropriately to OTFM management.

The following issues are repeated from the prior years' (1995, 1996 and 1997) Report on Internal Controls. In an effort to consolidate similar issues, we have combined certain items into one issue and have prefaced each issue with a note to the reader detailing the numbers of the items combined. For a complete listing of all issues and its current status, please see the "Summary of Issues" within this report.

MATERIAL WEAKNESSES

Missing and/or Incomplete Documents - Tribal and IIM (32)

As part of our audit related to disbursement testing, critical documentation was determined to be either missing or contained errors. We noted instances for which we were unable to obtain the appropriate documentation authorizing IIM accounts as automatically disbursing.

During our 1998 field visits, and in our substantive and compliance testing, we noted three items lacking appropriate documentation authorizing IIM accounts as automatically disbursing. This portion of the reportable condition remains unresolved as of September 30, 1998.

During our 1997 field visits, and in our substantive and compliance testing, we noted instances where we were unable to obtain support for a minor reaching the age of majority. We noted no such instances in the 1998 audit, and consider this part of the 1997 material weakness resolved.

Improper Transaction Coding - Tribal and IIM (33):

We noted numerous receipts and disbursements encoded with improper reference codes within the IIM system, particularly, the use of the "miscellaneous" reference code, or "payment other" although the items represented agriculture leasing, land sales, etc., for which there is specific reference codes available. We also noted improper transaction code errors in the Omnitrust system, where lease payments are coded as land sales, or transfers between or within appropriations were erroneously recorded. As a result, the OTFM cannot provide reasonable assurances as to the nature or amounts represented, as individual categories of trust receipts and disbursements.

The sample selected during the September 30, 1998 audit disclosed reference code exceptions.

This condition remains unresolved as of September 30, 1998.

REPORTABLE CONDITIONS

Ineffective Implementation of Policies and Procedures - TRIBAL and IIM (31)

Note: Issues 4, 19, and 31 all addressed ineffective implementation of policies and procedures. They have all been combined and are currently being reported as issue number 31.

As part of our audit related to compliance with internal controls as they relate to standard operating procedures, we mailed two different types of questionnaires (i.e., Collection Officers and IIM Accounting Technician) to each Area office and asked the ATA to have all respective personnel complete and return the questionnaires to us as soon as possible. Upon receipt we reviewed the questionnaire responses, conducted telephone interviews with Area and Agency field personnel and visited certain Area and Agency offices to clarify the responses presented. It should be noted that while authority to supervise financial trust accounting personnel was delegated to the OTFM in February 1996 under the Secretarial Order 3197, particular trust functions, are performed by non-OTFM staff (i.e., BIA and Tribal) over which the OTFM has no control nor line authority. As a result, there is an inability to implement existing policies and procedures pertaining to non-OTFM personnel/individuals.

While the OTFM continues to work towards providing improved regulatory guidance and policies and procedures, consistent implementation of existing guidelines has not been achieved due to the decentralized nature of OTFM field accounting operations, lack of personnel at certain locations, lack of line authority over certain trust functions that impact OTFM operations and inadequate information systems. The following items represent reportable conditions as of September 30, 1998, and should be addressed by the OTFM:

- Segregation of duties
 - ✓ In certain instances OTFM staff are performing collection officer duties and performing account encoding functions.
- Training
 - ✓ Collection officers and/or IIM Accounting Technicians do not have trained alternates to perform the function in their absence (BIA).
- Safeguarding of assets
 - ✓ Collection officers are often the only individual with the combination to the safe.
 - ✓ Combinations are not located in a sealed envelope with a third party.
 - ✓ Combinations are not changed when an employee with knowledge of the combination to the safe leaves his/her position (BIA).
 - ✓ Cash receipts are being stored in file drawers rather than in a safe or vault.
- Work environments
 - ✓ Collection officers work in an open, unsecured environment in field offices. This type of work environment lends itself to the possibility of sensitive

account holder information being exposed to non-account holders. This environment also does not prohibit terminated employees from re-accessing their old workstations.

- Supervisory process reviews
 - ✓ Reviews of the collection and disbursing processes are not being performed.
 - ✓ IIM accounts on hold status are not being reviewed periodically.
- Posting of Tribal funds into the IRMS system
 - ✓ IIM accounting technicians are currently posting funds that are known to be tribal owned accounts into the IIM system.
- IIM account status changes
 - ✓ IIM accounting technicians do not submit address changes, status (hold) changes, new account set ups, etc., to a supervisor for approval prior to processing, and no supervisory review of the change to the master record subsequently occurs.
- Implementation and enforcement of policies and procedures
 - ✓ OTM Division of Field Operation's staff are not complying with minimum documentation standards for IIM transactions as identified in POL98-012.
 - ✓ OTM Division of Quality Assurance is currently not reviewing the operations of the Division of Trust Fund Accounting and/or Division of Field Operation.
- Policies and procedures
 - ✓ OTM personnel do not have a comprehensive set of standard operating procedures manuals in which to understand their job responsibilities and duties. They are expected to perform their duties by utilizing the Desk Operating Procedure Manual and/or OTM issued numbered policies and procedures. These sources of information should be combined into a comprehensive set of operating manuals.

The above conditions remain unresolved as of September 30, 1998. OTM has advised that an action plan is in process which should resolve the above issues by March 31, 2000.

The following items reported under issue #31 were resolved as of September 30, 1998.

- An accounting technician processed disbursements from beneficiary accounts that were on a credit hold status prior to receiving proper authorization and documentation to remove the hold. In this instance, the beneficiary accounts affected were individuals of close personal relationship to the accounting technician.
- An IIM accounting technician allowed the Authorized Collector access to the IRMS system under the clerk/Teller's password, and allowed the Authorized Collector to process transactions.
- The inventorying of the blank check stock is not always performed by an individual independent of the disbursing function or is not performed at regular intervals.

Funds Accepted into Trust without Supporting Documentation - Tribal and IIM (34)

We noted several Tribal timber-related collections posted to the IIM system which originated with the Tribe and for which there was no supporting documentation. The amounts totaled approximately \$365,000.

Without supporting documentation, the OTFM has no way to ascertain that the funds it is receiving into trust are actually trust funds. The Tribes are entitled to receive the royalty payments or other proceeds of labor income directly and later submit all or some of the revenue to the OTFM for deposit into trust. As administrator, the OTFM needs, and should be able to obtain, supporting documentation and reasonable assurances from the Tribe regarding the nature of the funds it is receiving into trust.

Presently, BIA is involved in the collection process. The OTFM can exercise no control over their collection officers. This condition was shared with the BIA as it relates to fiscal year 1997.

The condition remains unresolved as of September 30, 1998.

Investments - Inadequate Procedures relating to Market Pricing and Stated Market Values - Tribal and IIM (37)

In reviewing the process by which the Branch of Investments obtains information to manually price securities, we determined there is no documented procedure for updating and documenting the source of information for manually priced securities.

This condition remains unresolved at September 30, 1998.

OTHER ADVISORY COMMENTS

Investments - Lack of Manual Adjustment Procedures - Tribal and IIM (36)

We were unable to locate documented procedures for performing manual adjustments (correcting entries) in the OmniTrust system. These procedures should include a review of the transaction before and after the posting to ensure accuracy. In our testing of investment activity, which included several principal pay down transactions, we noted the amount of carry value reduced with a principal pay down did not correspond to the same par/cost relationship as indicated in the original broker's confirmation. In reviewing the history of transactions posted for the security, it was noted that in the previous fiscal year a manual adjustment to carry value was made incorrectly, thus altering the par/cost relationship.

This condition remains unresolved at September 30, 1998.

Investments - Lack of Contract Compliance - Custodial Reconciliation - Tribal and IIM (39):

Differences exist between Banker's Trust, OTFM's Custodian, and information contained on the OmniTrust system. The differences exist predominately on the Banker's Trust system and include maturity dates, interest rates and differences in par value. Although the OTFM has identified and communicated the differences to the contractor, some differences have aged significantly without resolution. The differences may lead to difficulties in proper settlement when securities mature or are sold if the appropriate party does not resolve them.

This condition remains unresolved at September 30, 1998.

Fund Balance - Accepting Non-trust Beneficiaries and Non-trust Funds - Tribal and IIM (40)

It appears that accounts may be established and maintained for non-trust beneficiaries and non-trust money may be accepted into these accounts. It does not appear that definitive regulation or legislation exists which specifically addresses the nature of the allowable collections into trust or whether the OTFM may provide trust and/or banking services to organizations other than Tribes or Individual Indians.

During our 1998 field visits, and in our substantive and compliance testing, we noted eight accounts that appear to be maintained in the IRMS system for various BIA program related activities.

By accepting these moneys into the trust funds, the OTFM accepts the fiduciary responsibility for maintaining the balances and investing the funds. The OTFM may not be delegated those responsibilities and may be inappropriately utilizing government resources to manage and account for the funds. Additionally, without proper supporting documentation, it would be impossible to determine the nature of the funds collected as being appropriate. Voluntary deposits are generally prohibited under 25 CFR 115.6.

These practices noted above may expose the OTFM to unnecessary risk, as in the case of receipt and disbursement of loan payments to third parties without documented beneficiary approval.

Currently, IIM accounts are established at 62 field locations. Under the existing level of field staffing, resources and technology, the OTFM does not have the capability to provide a supervisory review and approval of source documents and new account set-ups in the IRMS system.

This condition remains unresolved at September 30, 1998.

Area and Agency - Bureau of Indian Affairs Trust Responsibilities - Tribal and IIM (41)

As part of our field visits and substantive and compliance testing, we reviewed the collection process along with supporting documentation for collections posted to IIM and Tribal accounts. In so doing, we noted the following internal control issues and instances of non-compliance as they relate to the trust responsibilities of the BIA:

- Unauthorized disbursements from trust accounts occur. We also noted that disbursements from IIM accounts with Social Services holds were "recommended" by a rubber-stamped facsimile of the Superintendent's signature.
- Our testing of lease income revealed that interest is not always collected on late payments. We noted instances where the lessee paid an incorrect amount that was less than the lease amount due. We also noted the Agency was making no attempt at collection of past due amounts.
- The lessee did not execute one lease selected in our upstream sample. We also observed instances of lease payments receipted "pending approval of the lease." The lessee has had use of the land.

- The Agency holds checks in excess of the 24 hour Treasury Fiscal Requirement.
- Files containing original documents were not stored in a locked, secure location.
- Some allotted lands are not being advertised for lease.
- There is a lack of segregation of duties when the Agency Authorized Collector simultaneously acts as the Authorized Mail Clerk.
- There is no backup for the Collections officer, or the alternate Collection officer has not had an opportunity to process collections, which may mean they are no longer familiar with the process.
- The Agency accepts personal checks as a form of payment. On occasion personal checks were not honored by the issuing bank, and overdrafts to IIM accounts occurred as a result of the delay between the time the item was returned to the Agency and the distribution to the account holder.

These conditions were shared with the BIA as they related to fiscal year 1996 but is considered unresolved as of the date of this report.

The following sections contain the comments from the September 30, 1996, Report on Internal Controls.

Prior Year - September 30, 1996

MATERIAL WEAKNESSES

Inadequate Internal Financial Reporting - Tribal and IIM (17)

In performing our tests related to the trust fund balances, we noted that the OTM could not produce a ready analysis of the changes in cumulative trust fund balances. The resulting Statement of Changes in Trust Fund Balances for IIM is a compilation of information derived from three different sources, including ComiTrust data, IIM system data, and manually prepared investment amortization and accretion schedules.

The OTM does not produce internal combined trust fund financial reports or statements in accordance with the appropriate basis of accounting. Financial reporting prepared for management's review contained no Statement of Assets and Trust Fund Balances or Statement of Changes in Trust Fund Balances other than those produced as a part of the annual audited financial statements.

The Statement of Changes in Trust Fund Balances is a generally accepted financial report that provides an analysis of periodic receipt and disbursement activity by source, and, in essence, represents a summary reconciliation of beneficiary accounts at the highest consolidated level.

This condition was unresolved as of September 30, 1998.

This condition was concurred and implementation is underway at September 30, 1998. The OTM did compile a Statement of Assets and Trust Fund Balances and Statement of Changes in Trust Fund Balances as of and for the month ended October 31, 1998. The OTM will continue to compile the financial statements on a quarterly basis.

Area and Agency Offices - Unauthorized Transactions - Tribal and IIM (18)

As part of our receipts and disbursements testing, we reviewed disbursement transactions for proper approvals, in accordance with 25 Code of Federal

Regulations ("CFR"), Secretarial Order 3177, and Secretarial Order 3197 (for transactions subsequent to February 9, 1996).

In our sample, we noted that BIA personnel did not approve three Tribal disbursement transactions from the IIM subsidiary system totaling \$850,000. These were disbursed prior to the February 9, 1996 Secretarial Order 3177 which changed policies and procedures relating to disbursement approvals. Also, for two transactions totaling \$70,640, documentation supporting beneficiary approval of disbursements to third parties was not provided.

OTFM and BIA policies and procedures require an appropriate approval be obtained prior to funding tribal disbursements. Without proper approvals, the OTFM may be inappropriately disbursing trust assets. An approval signature indicates that a disbursement has been reviewed and is appropriate based on supporting documentation. Lack of documented approval indicates that these steps may or may not have occurred. Inadequate documentation of approvals may also expose the OTFM to a potential breach of fiduciary responsibility.

The condition was shared with the BIA as related to fiscal year 1996. However, our testing of disbursement transactions for the fiscal year 1997 revealed several instances of unauthorized disbursements from both Tribal and Individual Indian Money accounts. This condition is unresolved at September 30, 1998.

Area and Agency Offices - Ineffective implementation of Policies & Procedures - Tribal and IIM (19)

Note: Issues 4, 19 and 31 all addressed ineffective implementation of policies and procedures. They have all been combined and are currently being reported as issue number 31.

REPORTABLE CONDITIONS

Cash - Failure to Analyze Suspense Accounts - Tribal and IIM (20)

An analysis of the items that comprise several U.S. Treasury ("the Treasury") suspense and budget clearing accounts has not been completed. Therefore, the OTFM's current procedures for researching and proposing adjustments to the cash out of balance condition do not consider whether an offset may already exist within one of these account balances. Funds to cover the adjustments may be in a Treasury suspense or budget clearing account because the original transaction may not have been reported to Treasury, and a Statement of Difference was created. If the Statement of Difference was not resolved, the transaction amount was transferred to one of the Treasury suspense or budget clearing accounts. The Treasury suspense and budget clearing account balances at September 30, 1997, were approximately \$100,500, (\$3,378,000), \$5,957,000 and (\$3,310,000).

The Treasury suspense and budget clearing account balances at September 30, 1998, were approximately \$102,700, (\$3,378,000), \$5,957,000 and (\$3,310,000).

As a result, the resolution of reconciling items between the U.S. Treasury and the OTFM may be incorrect without consideration given to the items that comprise prior period suspense balances.

The condition was concurred but remains unresolved at September 30, 1998.

Investments - Lack of Reliable IIM Balance Available for Investing - IIM (22)

The amount invested on behalf of IIM account holders is based on the OmniTrust system IIM control account balance. The balance per OmniTrust does not agree to the balance per the IIM subsidiary ledger. The OmniTrust control account for IIM exceeds the IIM subsidiary ledger by approximately \$29,000,000. At this point in time, it can not be determined which system has an accurate balance. Consequently, the OTFM may be over or under-investing, because the underlying balance is unreliable.

During the year ended September 30, 1998 the OTFM, with the assistance of a contractor, initiated a project to identify components of this number. As of September 30, 1998 the aggregate of all positive fund balances from the IIM Detailed subsidiary ledger exceeded the assets by approximately \$6,700,000.

The condition was concurred but remains unresolved at September 30, 1998

Special Deposit Accounts - Lack of Policies and Procedures and Inconsistent Practices - IIM (24)

Note: Issues 7 and 24 addressed Special Deposit Accounts. They have been combined and are currently being reported as issue number 24.

Per 25 CFR, "Special Deposit" accounts are to be used as suspense accounts to which funds are posted when allocation of funds is not immediately clear. These accounts are maintained within the IIM subsidiary system. The funds are then transferred to the account holder when the proper allocations are determined. For receipt and disbursement transactions specifically related to Special Deposit accounts, we noted a number of practices which are inconsistent with management's defined use of Special Deposit accounts, as well as inadequate policies and procedures governing the use of these accounts.

Among the issues noted were:

- Loan payments to third party financial institutions accumulate in a Special Deposit account, and lump sum payments are made on behalf of beneficiaries. The amounts paid do not equal the amounts contributed by beneficiaries, and it is not known how the payments by individuals were reconciled to the lump sum payments. Further, we were unable to obtain documentation to support approval by the beneficiaries of these payments made to third parties.
- A Tribal credit program is using a Special Deposit account to withdraw funds as necessary to make loans to Tribal members. The source of the deposits to this particular Special Deposit account may be loan repayments, which are not considered proper receipts from trust activities.
- Past errors that had not been resolved were posted to Special Deposit accounts. These include canceled check claims, payments to an incorrect individual for per capita distribution, and historical conversion errors (from manual to automated system in 1977).
- Special deposit accounts contain judgment award funds.
- Special Deposit Accounts are not reviewed periodically to ensure that they are used for their intended purpose and that balances are current. The OTFM should work with BIA to determine the proper distribution.

The practices noted above may expose the OTFM to unnecessary risk, as in the case of receipt and disbursement of loan payments or payments to third parties without documented beneficiary approval.

Lack of standardized procedures and adequate resources to identify and allocate these monies is the primary historical cause of aged Special Deposit account balances.

This condition was concurred but remains unresolved at September 30, 1998.

We have been advised by the OTFM that this issue is currently being addressed by a Task Force consisting of NIA, OST, Policy Management and Budget, Solicitors and Office of Audit and Evaluation.

Negative IIM Account Balances Included in Invested Balance - IIM (26)

The IIM subsidiary ledger contains negative account balances approximating \$44,000,000. The OmniTrust control account for IIM is supposed to represent the aggregate net balance of the IIM subsidiary system. However, this is difficult to determine because of the \$20,000,000 out of balance condition between OmniTrust and the IIM subsidiary ledger that is noted in a separate reportable condition. The invested balance for IIM account holders is equal to the OmniTrust balance. If the negative balances are included in both ledgers, IIM account holders with positive balances are being penalized by lower earnings due to the IIM investment pool being reduced by the amount of the negative balances.

In addition to individual overdraft accounts, a large portion of the negative balances are due to negative undistributed interest account balances.

During the year ended September 30, 1998 the OTFM, with the assistance of a contractor initiated a project to identify components of this number. As of September 30, 1998 the aggregate of all positive fund balances from the IIM Detailed subsidiary ledger exceeded the assets by approximately \$6,700,000.

This condition was concurred but remains unresolved at September 30, 1998.

Prior Year - September 30, 1995

MATERIAL WEAKNESSES

Cash - Tribal and IIM (1)

Cash balances converted as of March 31, 1995 from the prior general ledger to OmniTrust were approximately \$27,000,000 higher than the balance as reported to the U.S. Treasury. Cash reconciliation procedures only reconcile current activity from OmniTrust to Treasury and do not address the unreconciled beginning balance. The composition of the difference is not known and no reliance has been obtained that either the OTFM balance or the balance as reported to Treasury balance is accurate.

This condition was concurred but remains unresolved at September 30, 1998. Further, the \$27,000,000 difference is now reflected at approximately \$35,000,000 as of September 30, 1998. The out of balance condition changes as reconciling items are identified and cleared.

Trust Fund Balances - Tribal and IIM (3)

An "Undistributed Interest Account from TRMS" exists on OmniTrust balances of approximately \$1,800,000 and \$2,100,000 at September 30, 1995 and September 30, 1998, respectively.

This condition was concurred but remains unresolved at September 30, 1998.

The balances are likely to remain intact until the U.S. Federal Government and the beneficiaries reach a resolution regarding past activities and balances.

Area and Agency Offices - Tribal and IIM (4)

Note: Issues 4, 19 and 31 all addressed ineffective implementation of policies and procedures. They have all been combined and are currently being reported as issue number 31.

REPORTABLE CONDITIONSCash - Tribal (5)Negative Cash Balances

There are thirteen (13) cash accounts on OmniTrust with negative balances totaling approximately \$742,000 and 726,000 as of September 30, 1995 and 1998, respectively.

This condition was concurred but remains unresolved at September 30, 1998. The current balances, however, are likely to remain intact until the U.S. Federal Government and the beneficiaries reach a resolution regarding past activities and balances.

IIM Special Deposit Accounts - IIM (7)

Note: Issues 7 and 24 addressed Special Deposit Accounts. They have been combined and are currently being reported as issue number 24.

Ownership Records - Tribal and IIM (8)

Ownership records at the Area and Agency offices are not updated in a timely manner. This results in the potential for inaccurate distributions of lease income to IIM account holders. Lack of resources to process the significant number of changes causes this backlog.

This condition was concurred, but remains unresolved at September 30, 1998. This condition has been shared with the BIA.

Accounts Receivable System - Tribal and IIM (10)

The BIA does not have an accounts receivable system in place for trust assets. The GAO, in its report dated April 25, 1994, (GAO/ATMD-94-110R) recommended that the BIA develop an accounts receivable system. Currently, the BIA has no assurance that all lease revenues are billed and subsequently collected.

Such a system should provide reasonable assurance that earned revenues are billed, collected and posted to the appropriate beneficiary's account.

This condition was concurred but remains unresolved at September 30, 1998. This comment has been shared with the BIA.

OTHER ADVISORY COMMENTS

Electronic Data Processing

Disaster Recovery - IIM (12)

Note: Issues 12 and 13 addressing Trust Systems have been combined and are currently being reported as issue number 42.

Password Controls - IIM (13)

Note: Issues 12 and 13 addressing Trust Systems have been combined and are currently being reported as issue number 42.

1099 Interest Reporting - IIM (16)

Currently, there are individuals with no known social security number receiving interest income on trust investments. Because the social security number is unknown, the OTM reports the interest earnings to the Internal Revenue Service ("IRS") with no recipient social security number. The OTM does not withhold taxes prior to the interest distribution. Of the approximately 260,000 accounts on the IIM system held by individuals, approximately half, or 130,000, have no social security number as of September 30, 1995.

Of the approximately 286,000 accounts on the IIM system held by individuals, approximately 106,000 have no social security number as of September 30, 1998.

This condition was concurred but has not been resolved at September 30, 1998. However, significant efforts are currently underway internally and by a contractor to identify missing account holders and missing social security numbers.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above.

This report is intended for the information of the Inspector General, The Office of Special Trustee for American Indians of the U.S. Department of Interior and management of OTM and is not intended for any other purpose. However, this report is a matter of public record and its distribution is not limited.

Griffin & Associates, P.C., CPAs

GRIFFIN & ASSOCIATES, P.C.
Certified Public Accountants

Boulder, Colorado
January 22, 1999

U.S. DEPARTMENT OF THE INTERIOR
OFFICE OF THE SPECIAL TRUSTEE FOR AMERICAN INDIANS
TRIBAL AND OTHER SPECIAL TRUST FUNDS,
AND INDIVIDUAL INDIAN MONIES TRUST FUNDS
MANAGED BY THE
OFFICE OF TRUST FUNDS MANAGEMENT

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON COMPLIANCE WITH
LAWS AND REGULATIONS

SEPTEMBER 30, 1998

GRIFFIN & ASSOCIATES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

DAN D. GRIFFIN

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON COMPLIANCE WITH LAWS AND REGULATIONS

To the U.S. Department of the Interior
Office of the Special Trustee for American Indians:

We have audited the Statements of Assets and Trust Fund Balances and the related Statements of Changes in Trust Fund Balances for the Tribal and Other Special Trust Funds, and Individual Indian Monies trust funds ("IIM") managed by the U.S. Department of the Interior Office of the Special Trustee for American Indians ("OST") Office of Trust Funds Management ("OTFM") as of and for the years ended September 30, 1998 and 1997, and have issued our reports thereon dated January 22, 1999.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws and regulations applicable to the OTFM is the responsibility of the management of the OTFM. As part of obtaining reasonable assurance about whether the statements referred to above are free of material misstatement, we performed tests of OTFM's compliance with certain provisions of laws and regulations. However, the objective of our audits was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions, contained in law or regulations that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the Statements of Assets and Trust Fund Balances and the Statements of Changes in Trust Fund Balances, or that the sensitivity warrants disclosure thereof.

The results of our tests disclosed material instances of noncompliance. As communicated to us by the Office of the Solicitor ("Solicitor") for the Department of the Interior, tribal organizations and classes of Indian individuals have filed various claims against the U.S. Federal Government for failure of the U.S. Federal Government to fulfill its fiduciary responsibilities and related charges.

Current Year - September 30, 1998

IMMATERIAL NONCOMPLIANCE

Noncompliance with 25 CFR 115.6 - IIM (CI)

25 CFR 115.6 states "As a general rule, voluntary deposits shall not be accepted. Indians who require banking services shall be encouraged to utilize commercial facilities". As indicated within the "Report of Independent Public Accountants on Internal Controls September 30, 1998", we noted several instances in which the OTFM accepted voluntary deposits to Individual Indian Money accounts.

OTHER NONCOMPLIANCE

The OTFM represented to the Department of the Interior via its "Management Representation Letter" dated December 18, 1998 for fiscal year 1998 unaudited financial statements the following:

"We have not assessed the effectiveness of OTFM's internal control structure over safeguarding the assets against unauthorized acquisition, use, or disposition, compliance with laws and regulations, and financial reporting based upon control criteria established under the Federal Managers' Financial Integrity Act of 1982 (FMFIA) and the OMB Circular A-123 subsequent to September 30, 1995. Note: the Special Trustee for American Indians, in his Annual Assurance Statement of Management Controls for Fiscal Year 1997 concludes that the OST systems of management, administrative and financial controls do not provide reasonable assurance that the objectives of the FMFIA have been achieved."

We do concur with the Special Trustee in his Annual Assurance Statement of Management Controls for Fiscal Year 1997 "that the OST systems of management, administrative and financial controls do not provide reasonable assurance that the objectives of the FMFIA have been achieved." However, we believe that the OST and the OTFM are taking the appropriate steps in developing and implementing the "Trust Management Improvement Project High Level Implementation Plan" dated July 1998.

Prior Year - September 30, 1996

OTHER NONCOMPLIANCE

Non-compliance with DOA98-005 (OTFM Delegation of Authority for Disbursements) (C2)

We reviewed disbursement transactions for proper approvals, in accordance with 25 Code of Federal Regulations ("CFR") and Secretarial Order 3177 or Secretarial Order 3197. According to numerous sections of 25 CFR, and Secretarial Order 3177, disbursements from tribal trust accounts require the approval of the Secretary of the Interior or his delegate. This authority was subsequently re-delegated to Agency Superintendents for transactions prior to February 9, 1996. On February 9, 1996, Secretarial Order 3197 established the Office of the Special Trustee for American Indians within the Department of the Interior and moved the Office of Trust Funds Management from the BIA to the OST. The Secretarial Order issued all delegations of authority for financial trust services to the Special Trustee for American Indians, and rescinded all such delegations to the Assistant Secretary - Indian Affairs. Pursuant to that Order, on February 9, 1996, the Special Trustee for American Indians delegated all program and administrative authorities necessary to perform financial trust services to the Director, OTFM, with the exception to approve withdrawals of tribal funds from trust. This delegation was published as 210 DM 14, Release 3053. The Director of OTFM, attempted to re-delegate administrative authority within the jurisdiction set forth in 210 DM 14, Release 3053, to OTFM field accounting personnel and BIA Agency Superintendents. This re-delegation was not approved. Subsequent to this, the Director re-delegated her authority to the Area Trust Accountants ("ATA") via Delegation of Authority "DOA98-005" which became effective February 12, 1998. However, during our testing of disbursement transactions we noted exceptions due to improper authorizations (i.e., Superintendents and/or individuals other than the Director or her assignee had authorized the disbursement).

This noncompliance issue is the result of the OTFM and BIA having not reached an operating agreement or executed a Memorandum of Understanding that would define the authorities and responsibilities of various OTFM and BIA personnel in performing financial trust services on behalf of Tribes and individual Indians and specifically as these responsibilities relate to disbursement authorizations. Uncertainties regarding the ultimate placement of OTFM field staff upon termination of the Special Trustee's Office has resulted in inconsistent implementation of responsibilities.

This condition was concurred but remains unresolved at September 30, 1998.

IMMATERIAL NON-COMPLIANCE

Treasury Fiscal Requirement (C3)

It was noted that Agency offices are in violation of the Treasury Fiscal Requirements whereby funds had been accumulated in excess of \$5,000 and a timely deposit was not made.

The condition was concurred but remains unresolved at September 30, 1998. The OTFM's lockbox initiative should address the delays in the deposit of funds.

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, the OTFM complied with the provisions referred to in the third paragraph of this report, and with respect to items not tested, nothing came to our attention to cause us to believe the OTFM had not complied, in all material respects, with those provisions.

Additionally, the objective of our audit of the financial statements was not to determine whether OTFM's systems are Year 2000 compliant. OTFM's management is solely responsible for Year 2000 compliance for its systems and any other systems that impact OTFM's operations, such as those of OTFM's vendors, service providers or other third parties. Accordingly, we have no responsibility to determine, and provide no assurance on, whether OTFM has addressed or will be able to address the affected systems on a timely basis.

This report is intended for the information of the Inspector General, the Assistant Secretary for Indian Affairs, and the Office of Special Trustee for American Indians of the U.S. Department of Interior and management of OTFM and is not intended for any other purpose. However, this report is a matter of public record and its distribution is not limited.

Griffin & Associates, P.C., CPAs

GRIFPIN & ASSOCIATES, P.C.
Certified Public Accountants

Boulder, Colorado
January 22, 1999